

VZCZCXRO3554

PP RUEHAG RUEHAST RUEHDA RUEHDBU RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA  
RUEHLN RUEHLZ RUEHNP RUEHPOD RUEHROV RUEHRS RUEHSR RUEHVK RUEHYG  
DE RUEHBW #0380/01 1201737  
ZNR UUUUU ZZH  
P 301737Z APR 09  
FM AMEMBASSY BELGRADE  
TO RUEHC/SECSTATE WASHDC PRIORITY 1241  
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE  
RHEHNS/NSC WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RUCPDOG/USDOC WASHDC  
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK  
RHMFISS/HQ USEUCOM VAIHINGEN GE

UNCLAS SECTION 01 OF 02 BELGRADE 000380

SENSITIVE  
SIPDIS

E.O.12958: N/A

TAGS: [PGOV](#) [PREL](#) [SR](#)

SUBJECT: SERBIA: MUNICIPAL GOVERNMENTS FEELING POLITICAL, ECONOMIC  
PRESSURE

REF: BELGRADE 352

Summary

1. (SBU) A recent series of changes in local government highlight the fragility of narrowly divided local governing coalitions, as well as efforts by the Socialist Party of Serbia (SPS) and Democratic Party (DS) to exploit these divisions for political gain. Changes in governments in Kraljevo, Leskovac, and Nova Varos - as well as ongoing coalition instability in Cacak and Priboj - are due less to economic pressures than political opportunism. Municipalities with stable coalition majorities are feeling pressure from the economic crisis as they face growing unemployment and expected cuts in financial support from Belgrade. The opinions of local leaders are mixed on the prospects for a resurgence of the Serbian Radical Party (SRS), the Serbian Progressive Party (SNS), and other nationalist parties. The worsening fiscal position of municipalities at a minimum will undermine unity and efficacy of local government. End Summary.

#### Coalition Instability in Medium-Sized Cities

2. (SBU) In addition to the widely-reported gridlock in the local governments in the Zemun and Vozdovac districts of Belgrade (septel), several medium-sized cities have experienced political instability over the past several months. In the medium-sized central Serbian city of Kraljevo, following months of a local assembly blockade led by DS deputies, the Serbian Radical Party (SRS)-Democratic Party of Serbia (DSS)-Nova Serbia (NS)-Socialist Party (SPS)-United Pensioners Party (PUPS) coalition fell in late February when SPS-PUPS and DSS left to form a DS-led coalition. In the medium-sized southern Serbian city of Leskovac, a parliamentary blockade yielded similar results on March 19 when the SPS left an SRS-led coalition to form a new government with DS, G17 Plus and the NS. In the small Sandzak city of Nova Varos, a DS councilor in early March split with his party and temporarily sided with the SRS to form a governing coalition; when the councilor was replaced in late March, the DS-led governing coalition returned to power.

3. (SBU) Other medium-sized cities have experienced coalition instability that has not led to changes in their governing coalition. In the central Serbian city of Krusevac, the SRS-DSS-SPS coalition nearly unraveled in mid-March when SRS councilors were implicated in misuse of public funds. In nearby Cacak, the work of the local assembly was blocked as governing coalition SPS members negotiated for fifteen days with the DS opposition before deciding not to jump ship. SPS representatives in Cacak told us on March 20 that they were currently not interested in leaving the governing coalition, but conspicuously left the door open in the future. (The SPS holds nine votes in the governing coalition with a majority of 3 votes.) In late March, local press reported that the Cacak DS

committee opened negotiations with the NS (which holds the mayorship) to discuss replacing the SRS and DSS with DS and SPO in the governing coalition. SPS and DS leadership in Cacak told us that mismanagement of public companies was a key motivation for replacing the local government.

#### Thin Margins Tempt SPS and DS

-----

14. (SBU) The SPS and DS have taken advantage of slim majorities to weaken or destabilize local governing coalitions that they do not control. In Kraljevo, the four SPS-PUPS councilors left the governing NS-SRS-DSS coalition to join DS and a local Kraljevo party to form a governing coalition with a majority of one vote. In Leskovac, the SPS and DSS left the governing coalition with a majority of two votes to join with DS and G17 Plus to form a majority coalition by four votes.

15. (SBU) In the medium-sized city of Priboj, located in Serbia's Sandzak region, local SPS head Svetomir Gordic told us that he was actively seeking to replace the governing coalition and was awaiting a response from Belgrade. The head of the local DS council, Milenko Milicevic, told us his party supported the idea. (The SPS-PUPS coalition in Priboj with its four votes would not suffice to give a prospective DS-led coalition a majority.)

#### Municipalities Feeling Economic Strain

-----

16. (SBU) Municipal leaders, already feeling pressure from the economic crisis, voiced frustration that Belgrade is not providing adequate support. Zoran Jakovljevic (DS), mayor of the west-central

BELGRADE 00000380 002 OF 002

mid-sized city of Valjevo, told us that unemployment was increasing in Valjevo but that foreign and domestic investors (primarily Miroslav Miskovic's Maxi retail chain) still planned to follow through on investments. Jovan Markovic (DS), mayor of the mid-sized western city of Uzice, said that the economic crisis had already reduced his city's budget by 30% and that he was preparing for further reductions. The mayor of the large central Serbian city of Kragujevac, Veroljub Stevanovic, complained to us that Belgrade had reduced his city's budget by 20% over the past year while increasing the municipal budgets of Nis and Novi Sad. (Stevanovic plans to establish a new center-right party in May, "Together for Sumadija," which will advocate for decentralization of financial and political authority in Central Serbia.) Each of these mayors also voiced to us frustrations that the National Investment Plan did not adequately support projects they proposed that would best meet the needs of their cities.

17. (SBU) Despite growing economic pressures, many local leaders we met did not believe the crisis would lead to a resurgence of nationalist parties. Markovic told us that he believed the SRS and the Serbian Progressive Party (SNS) lacked the party infrastructure in his region to mount a serious campaign. Our DS and SPS interlocutors in Cacak conveyed a similar message, adding that neither the SRS nor the SNS had developed an alternative message that would resonate with voters in Cacak. However, in the heart of their traditional constituency, SRS and SNS support remains strong. According to Stevanovic, both the SRS and SNS were "unreformed, non-western parties" that would strengthen as the economic crisis worsened.

#### Economic Endowments Bring Stability

-----

18. (SBU) Despite the grim outlook in much of Serbia, local leaders in municipalities with natural resources and good management practices are confident they can thrive. Milan Stamatovic (DSS), mayor of Cajetina - the west Serbian municipality that includes the Zlatibor tourist resort - told us that his municipality has enjoyed political stability since 2000 (with a large DSS majority) and that he expected that good cooperation with NGOs and foreign investors would continue despite the downturn. Though he sought greater support from Belgrade to develop highways and airport access to

Zlatibor, Stamatovic was optimistic that his administration could create its own opportunities by promoting education in good business practices, commenting that "study trips (to Europe) are more effective than money from Belgrade." (This entrepreneurial attitude is strikingly unique among the mayors with whom we spoke.) Mirjana Avakumovic (DS), mayor of the small western Serbian municipality of Arilje, told us that her municipality's 1200 entrepreneurs (largely engaged in raspberry production) were prepared to weather the reduction in foreign demand and that she expected only "minimal unemployment" in the upcoming year. She complained that other municipalities received disproportionately larger shares of revenue transfers because of political connections, but told us that the economic crisis would have a minimal impact on Arilje's economic base of small entrepreneurs.

Comment

-----

19. (SBU) Serbia's municipalities will face increasing economic pressures in the months ahead as Belgrade moves forward with plans to reduce transfer payments to local government (reftel). However, recent upheavals in local governments have not been directly tied to economic issues, but rather to ambitions of the SPS and DS to exploit thin majorities to gain power. To date, the evolving relationship between the DS and SPS on the national level does not appear to have had a direct connection with changes in local government as we have not seen indications that party leaders in Belgrade are driving these local maneuvers. Although local governing coalitions that match the composition of the national government will likely benefit from connections through party channels, financial assistance to all municipalities will nonetheless become increasingly scarce. Turmoil in local government has thus far been limited - afflicting only 8 of 161 municipalities - and the extent to which it spreads will depend on both the numerical ability and motivation of local opposition blocs to seek power amid economic challenges that have no politically popular solutions. End Comment.

MUNTER